STATE OF MONTANA

Office of the Legislative Fiscal Analyst

STATE CAPITOL
HELENA, MONTANA 59620
406/444-2986

TERESA OLCOTT COHEA
LEGISLATIVE FISCAL ANALYST

November 4, 1991

TO: Legislative Finance Committee

FROM: Lois Steinbeck *Lois Steinbeck*
Associate Fiscal Analyst

RE: Interentity Loan and Negative Cash Report by the Office of Commissioner of Higher Education and the Department of Administration

INTRODUCTION

Section 17-2-107, MCA, requires the Department of Administration (DofA) and the Commissioner of Higher Education (CHE) to provide a written report to the Legislative Finance Committee by September 1 of each year that: 1) identifies any accounting entity that has received a loan or an loan extension for two consecutive fiscal year ends; 2) explains why the second loan or extension was made; 3) analyzes the solvency of the accounting entity; and 4) provides a plan for repaying the loans. In addition, the CHE report must identify any accounting entity that has had a negative cash balance for two consecutive year ends and a plan to address the solvency of the accounting entities. Statute prohibits negative balances at fiscal year end in an accounting entity for state agencies (Section 17-2-107(7)(a), MCA). The University System

is directed to maintain a positive cash balance in all funds it administers (Section 17-2-107, (b)(i), MCA).

House Bill 393 passed by the 1991 legislature allows DofA to authorize long-term loans to federal and state special revenue accounting entities whenever necessary due to the timing of receipt of agreed-upon reimbursements from the federal, private, or other governmental entity sources. DofA may approve the loans if the requesting agency can demonstrate that the total loan balance does not exceed total receivables. This bill extended this long-term loan provision previously allowed only for the Department of Social and Rehabilitation Services (SRS) to other state agencies in similar circumstances.

COMMISSIONER OF HIGHER EDUCATION

The CHE report summarizes the attached reports from each unit of the university system. Eleven of the 15 higher education agencies reported no interentity loans or negative accounting entity balances. There were only two interentity loans authorized for two consecutive years (listed on page 3 of attachment A). Both loans are made to accounts that handle grants for which reimbursements are received after the projects are completed.

Twenty-six accounting entities had negative cash balances at 1991 fiscal year end. The explanation for each follows:

- Sixteen entities account for reimbursable contracts or grants where payments are made prior to reimbursement from grant funds. Sufficient receivables exist to cancel out the negative balance in these accounts.

•Seven entities are clearing accounts which have negative balances due to the timing between cash transfers and cash receipts.

•Three entities are reported as having cash deficiencies for two consecutive fiscal year ends. An account at the Helena Vo Tech that tracks expenditures for a construction project that are reimbursed after the building is sold was originally identified as a problem in the CHE report but has since been removed from consideration as the sale proceeds will cover the cash deficiency. The remaining problem accounts are for the Great Falls Campus and Student Health Services at Northern Montana College. The college has identified a plan to reduce the cash deficiencies in these accounts by the end of fiscal 1993.

The CHE report notes that the university system has made progress in reducing negative cash balances at fiscal year end and the amount of loans extended. Entities with negative cash balances at fiscal year end comprised 0.3 percent of about 1000 accounting entities. The total dollar amount of loans was reduced by $1.9 million from fiscal 1990 to 1991.

DEPARTMENT OF ADMINISTRATION

Through fiscal 1991, DofA authorized loans to 24 accounting entities for two or more consecutive fiscal year ends. The explanation for each loan follows.

•Two loans are not subject to statutory restrictions, sine these loans were "grandfathered in" by 1983 legislation which applied the restriction to loans approved on or after March 1, 1983. Loans approved prior to that date

must be repaid according to the repayment plan previously approved. The Montana State Prison received a start-up loan in 1983 for the prison industry program which was originally to have been repaid in fiscal 1991, but in fiscal 1986 repayment was extended until fiscal 1993. The Department of Fish, Wildlife, and Parks (FWP) requires a loan to its federally-reimbursed grant programs for as long as the department participates in the programs.

●Two loans were extended to SRS accounting entities that receive reimbursement from the federal and county governments (Section 17-2-107(8), MCA).

●Three loans (two to FWP and one to the Department of Transportation) were authorized by the 1989 legislature.

●Sixteen accounting entities in various departments receive reimbursement from federal, private, or other governmental agencies.

●A loan has been made to the school equalization aid account to cover foundation payments to school districts pending receipt of income and property tax payments. DofA notes that the account may have insufficient cash to repay this loan in fiscal 1992. Under the Office of Budget and Program Planning revised revenue estimates, this account will have a fund balance deficit of $17.4 million at the end of fiscal 1992 and $48.0 million at the end of fiscal 1993.[1]

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[1] At the November 15 meeting of the Legislative Finance Committee, staff will present a detailed report on the loans to the school equalization account and their impact on the general fund.

There are three loans which have not been paid within one calendar year as required by statute (Section 17-2-107(2)(c), MCA). The loans are made to three entities that receive reimbursement from federal programs and will never have sufficient cash to fully repay loans as long as the state participates in the federal programs. These loans should be covered by the changes made by House Bill 393.

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THE MONTANA UNIVERSITY SYSTEM

33 SOUTH LAST CHANCE GULCH
HELENA, MONTANA 59620-2602
(406) 444-6570

COMMISSIONER OF HIGHER EDUCATION

TO: Teresa Olcott Cohea
Legislative Fiscal Analyst

FROM: Jack Noble
Deputy Commissioner for
Management and Fiscal Affairs

DATE: September 3, 1991

SUBJECT: University System Statutory Reporting Requirements
Interentity Loans/Negative Cash

Enclosed is the University System's report on interentity loans and negative cash balances as required by 17-2-107 MCA. The report is organized into two sections:

1. Loans or extensions of loans which have been authorized to the same accounting entity for two consecutive fiscal year-ends;

2. Accounting entities which have negative cash balances for two consecutive fiscal year-ends.

The attached campus responses provide their analysis of the solvency of the entities and the campuses' plans for eliminating any solvency problems.

Considerable progress has again been made by the University System during the past year in these areas. Some of the highlights of the FY91 report are:

1. Only two entities were re-authorized for interentity loans. The total dollar amount of the loans was reduced by $1,925,000 from FY90 to FY91;

2. A total of 26 entities had negative cash balances for the past two fiscal year-ends. Of these 26 entities, 16 represented cost reimbursable contracts or grants and 7 represent clearing accounts. Only 3 accounting entities actually had cash deficiency problems. This is .3% of the approximately 1000 accounting entities within the University System.

3. Of the 15 higher education agencies represented by this report (6 University System campuses, 5 Vocational Technical Centers, and 4 other University System agencies), 11 reported no cash deficiencies or loans.

The Board of Regents has continued its commitment toward eliminating solvency problems within the University System. The primary focus of the Regents, however, has been on fund balances rather than cash balances. At the November 1990 Board of Regents workshop, the Regents were presented a report which outlined the following:

1. Those negative fund balances as of June 30, 1990 that would be liquidated by June 30, 1991 and the source of funds to be used to liquidate the accounts;

2 Those negative fund balances as of June 30, 1990 which would not be liquidated by June 30 1991. For each of these accounts the Regents required a time-specific plan of action providing for the liquidation of the accounts, the planned source of funds to be used to liquidate the accounts, and alternative courses of action available to liquidate the negative accounts if the Board chose not to extend the June 30, 1991 deadline.

A preliminary report concerning FY91 negative fund balances was given to the Board of Regents Budget Committee during its August 1991 meeting. A formal report will be presented to the full Board during its September meeting.

MONTANA UNIVERSITY SYSTEM
REPORT ON INTERENTITY LOANS/NEGATIVE CASH
JUNE 30, 1991

Statutory Requirement #1:
Interentity loans which have been authorized for two consecutive year-ends.

Campus	Fund/Subfund Loan From	Fund/Subfund Loan To	Dollar Amount FY90	FY91
UM	Current-Unrestricted	Current-Restricted	$ 900,000	$ 600,000
MSU	Current-Unrestricted	Current-Restricted	2,675,000	1,050,000

The University System's FY90 report of interentity loans consisted of 2 loans totalling $3,575,000. The FY91 total balance is $1,650,000. UM has reduced their loans balance by $300,000 and MSU has reduced theirs by $1,625,000.

Statutory Requirement #2:
Accounting entities which have had negative cash balances for two consecutive year-ends.

We have divided this section of the report into three categories:

A. Entities with cash deficiencies
B. Cost reimbursement grants or contracts
C. Clearing Accounts

A. Accounting entities with cash deficiencies for two consecutive year-ends.

Campus	Accounting Entity #	Account Name	Dollar Amount FY90	FY91
NMC	33415	Great Falls Campus	$ (16,985.41)	$ (25,540.39)
NMC	34407	Student Health Services	(296.52)	(1,294.33)
HVTC	33040	Instructional Service Oper	(11,579.14)	(6,443.61)

B. Cost-Reimbursable Grants or Contracts

This category of accounting entities which have maintained negative cash balances for two consecutive fiscal year-ends consists of grants or contracts which are reimbursed only after the expenses have been incurred. Therefore, they will always have either a negative (or zero) cash balance. However, their fund balances should be zero, unless an accounting error has been made.

Campus	Accounting Entity #	Account Name	Dollar Amount FY90	FY91
UM	32108	UM Off-Campus Work Study	$ (14,859.87)	$ (8,118.95)
UM	32160	HHS Contracts & Grants	(61,350.30)	(18,220.69)
UM	32161	USDA Contracts & Grants	(9,982.18)	(675.58)
UM	32163	US Dept of Interior C&G	(167,073.98)	(117,814.00)
UM	32164	Dept Energy C&G	(3,453.16)	(1,228.65)
UM .	32166	NSF C&G	(21,151.03)	(23,656.43)
UM	32168	US Dept Ed C&G	(33,934.24)	(27,857.11)
UM	32169	Federal Agencies Misc C&G	(52,598.63)	(116,035.67)
UM	32170	Federal Subgrant C&G	(23,136.59)	(11,398.98)
UM	32180	State Agencies C&G	(145,144.82)	(125,517.39)
UM	32185	Local Govt C&G	(28,240.47)	(46,845.28)
UM	32195	Restricted Funds Alloc	(12,655.71)	(4,957.98)
MSU	32204	Grants & Contracts	(1,460,851.03)	(611,076.34)
MSU	32207	CWS Payroll	(279,228.47)	(101,759.62)
MSU	32225	PELL Grants	(711,793.77)	(597,401.96)
NMC	32403	NMC C&G	(29,797.95)	(22,263.21)

C. Clearing Accounts

Clearing accounts consist of accounting entities where another asset exists such as account receivables) which is equal to the amount of negative cash. The accounts are frequently monitored to be certain that the receivables or other assets can be converted to cash in the future.

Campus	Accounting Entity #	Account Name	Dollar Amount FY90	FY91
MSU	31209	Deferred Fee Payment	(27,776.68)	(21,954.01)
MSU	33213	Advances	(120,877.02)	(145,252.51)
MSU	33219	NSF Checks	(27,432.98)	(3,054.68)
MSU	33290	Designated Accts. Rec.	(62,009.92)	(44,211.46)
MSU	34290	Auxiliary Accts Rec.	(2,035.91)	(5,091.71)
NMC	31402	Registration-Deferred Contr	(92,751.65)	(126,081.78)
NMC	31403	Agency Billing Clearing	(33,381.12)	(35,748.71)

THE UNIVERSITY OF MONTANA
HOUSE BILL 44 REPORTING
For Fiscal Year 1991

LOANS AUTHORIZED TO SUBFUND ENTITIES

Agency:	The University of Montana		
Entity Name:	Inter Entity Borrowing Restricted Funds		
Entity Number:	32199		
Loan Amount:		FYE 1990	FYE 1991
		($900,000)	($600,000)

1. Brief Explanation of the Entity:

   The purpose of this entity is to record a loan at the subfund level for restricted entities.

2. Explanation as to Why the Loan Exists:

   This loan is necessary given the nature of restricted fund entities. They operate primarily on a cost-reimbursable basis. Many are grants and contracts or student financial aid programs from which funds are expended and billed to the federal government or other agencies after-the-fact.

3. Solvency Analysis:

   The negative entities within the restricted subfund are solvent since there is an accounts receivable, which when collected, will eliminate the associated negative cash position.

4. Reduction/Elimination Plan:

   There will always be a need for a loan to the restricted subfund as long as we continue to sponsor cost-reimbursable activities. Timely billing and collection from agencies reduces the amount of the required loan. Continued effort in this area has been made as evidenced by reducing the loan $300,000 in Fiscal Year 1991.

ACCOUNTING ENTITIES WITH NEGATIVE CASH BALANCES FOR TWO CONSECUTIVE YEARS

Agency: The University of Montana
Entity Name: UM Off-Campus Work Study Accounts
Entity Number: 32108

Cash Balance:	FYE 1990	FYE 1991
	($14,859.87)	($8,118.95)

1. Brief Explanation of the Purpose of the Entity:

   This entity is used to record the employer share of student work study wages for students in the federal work study program working off-campus.

2. Explanation of Negative Cash Balance:

   This entity is funded on a cost-reimbursable basis from the off-campus employers of work study students. Because the expense must occur before it can be billed, the entity will always be in a negative cash position.

3. Solvency Analysis:

   There is an account receivable in this entity which off-sets the negative cash position. Additionally, the fund balance, which is a true measure of solvency, is zero.

4. Reduction/Elimination Plan:

   Although this entity will always have a negative cash balance due to the nature of cost reimbursable programs, timely billing and increased efforts in the collection of outstanding receivables has reduced the negative cash amount.

Entity Name: Health & Human Services Contracts & Grants
Entity Number: 32160

Cash Balance:	FYE 1990	FYE 1991
	(61,350.30)	($18,220.69)

1. Brief explanation of the Purpose of the Entity:

   This entity is used to record activity for federal grants and contracts sponsored by the US Department of Health and Human Services.

Agency: The University of Montana
Entity Name: USDA Contracts and Grants
Entity Number: 32161
Cash Balance:

	FYE 1990	FYE 1991
Cash Balance:	($9,982.18)	($675.58)

1. Brief Explanation of the Purpose of the Entity:

   This entity is used to record activity for federal contracts or grants sponsored by the U.S. Department of Agriculture.

Entity Name: US Dept. of Interior Contracts and Grants
Entity Number: 32163

	FYE 1990	FYE 1991
Cash Balance:	($167,073.98)	($117,814.00)

1. Brief Explanation of the Purpose of the Entity:

   This entity is used to record activity for federal contracts or grants sponsored by the U.S. Department of Interior.

Entity Name: Dept. of Energy Contracts and Grants
Entity Number: 32164

	FYE 1990	FYE 1991
Cash Balance:	($3,453.16)	($1,228.65)

1. Brief Explanation of the Purpose of the Entity:

   This entity is used to record activity for federal contracts or grants sponsored by the U.S. Department of Energy.

Entity Name: NSF Contracts and Grants
Entity Number: 32166

	FYE 1990	FYE 1991
Cash Balance:	($21,151.03)	($23,656.43)

1. Brief Explanation of the Purpose of the Entity:

   This entity is used to record activity for federal contracts or grants sponsored by the National Science Foundation.

Agency: The University of Montana
Entity Name: US Dept of Education Contracts and Grants
Entity Number: 32168

Cash Balance:	FYE 1990	FYE 1991
	($33,934.24)	($27,857.11)

1. Brief Explanation of the Purpose of the Entity:

   This entity is used to record activity for federal contracts or grants sponsored by the US Department of Education.

Entity Name: Federal Agencies - Misc Contracts and Grants
Entity Number: 32169

Cash Balance:	FYE 1990	FYE 1991
	($52,598.63)	($116,035.67)

1. Brief Explanation of the Purpose of the Entity:

   This entity is used to record activity for federal contracts or grants sponsored by various federal agencies. The establishment of a unique accounting entity for each agency has not been warranted.

Entity Name: Federal Subgrant Contracts and Grants
Entity Number: 32170

Cash Balance:	FYE 1990	FYE 1991
	($23,136.59)	(11,398.98)

1. Brief Explanation of the Purpose of the Entity:

   This entity is used to record activity for federal funds subgranted to the University.

Entity Name: State Agencies Contracts and Grants
Entity Number: 32180

Cash Balance:	FYE 1990	FYE 1991
	($145,144.82)	($125,517.39)

1. Brief Explanation of the Purpose of the Entity

   This entity is used to record activity for contracts or grants from other State of Montana agencies.

Agency: The University of Montana
Entity Name: Local Government Contracts and Grants
Entity Number: 32185

Cash Balance:	FYE 1990	FYE 1991
	($28,240.47)	($46,845.28)

1. Brief Explanation of the Purpose of the Entity

   This entity is used to record activity for contracts or grants sponsored by local governmental agencies.

Entity Name: Restricted Funds Allocations
Entity Number: 32195

Cash Balance:	FYE 1990	FYE 1991
	(12,655.71)	(4,957.98)

1. Brief explanation of the Purpose of the Entity:

   This entity is used to record activity for grants and contracts sponsored by the Institute of Tourism and Recreational Research. Funding is received through appropriation granted under HB84 - Travel Research. An allocation is then made to this entity based on expenditures relating to the tourism activity.

2. Explanation of Negative Cash Balance:

   (Entity 32160, 32161, 32163, 32164, 32166, 32168, 32169, 32170, 32180, 32185, 32195)

   Most grants and contracts are cost-reimbursable. This means that the expenditures must be incurred before billing and reimbursement from the funding agencies can occur. The flow of this process will always result in negative cash within these accounts.

3. Solvency Analysis:

   (Entity 32160, 32161, 32163, 32164, 32166, 32168, 32169, 32170, 32180, 32185, 32195)

   Grants and contracts are covered by a formal agreement between the University and the funding agencies. As part of this agreement, the funding agency agrees to pay for expenses incurred by the University on behalf of the project. As the agencies are billed, a receivable and revenue are recorded equal to the unreimbursed expenses. This results in a fund balance of zero which places these accounts in a solvent position since liquidation of the receivable will eliminate the associated negative cash.

Agency Name: The University of Montana

4. Reduction/Elimination Plan:

(Entity 32160, 32161, 32163, 32164, 32166, 32168, 32169, 32170, 32180, 32185, 32195)

Although negative cash cannot be eliminated in these entities, it can be reduced by ensuring the billing is done in a timely manner and by monitoring receivables. Efforts in this area have continued.

Agency: Montana State University
Entity Name: Deferred Fee Payment Plan
Entity Number: 31209

Account Balances:	FYE 1990	FYE 1991
Cash Balance	(27,776.68)	(21,954.01)
Fund Balance	(3,165.67)	(2,448.80)

1. Brief Explanation of the Purpose of the Entity:

This entity is a control account for deferred fee payments. The Deferred Fee Payment Plan was authorized by the Board of Regents on September 11, 1972 (item 224-004) to allow for an installment plan for student tuition and fee payments. The plan requires the student to pay at least one third of the fees at fee payment time, one third 30 days later and the last third 60 days after fee payment. This procedure has been in effect for at least 15 years and has been audited each year.

2. Explanation of the Negative Cash Balance:

The deficit is the result of summer quarter fees. Normally these fees are collected at the time of registration, however, with the deferred fee payment plan, students may pay one third down, one third in thirty days and one third in 60 days. Because of the fiscal year boundaries two thirds of summer school deferred fees are collected in the new fiscal year, creating a negative cash position at fiscal year end.

3. Solvency Analysis:

By definition this account is solvent because the fund balance is zero except for the GAAP adjustment for Bad Debt Allowance. All write-offs occur to entity 31201, MSU General Operating.

4. Reduction/Retirement Plan:

Because of the nature of this clearing account, it will continue to carry a negative cash balance. While State Statute controls on cash, the relevant number in this situation is fund balance.

Agency: Montana State University
Entity Name: Grants and Contracts
Entity Number: 32204
Account Balances:

	FYE 1990	FYE 1991
Cash Balance	(1,460,851.03)	(611,076.34)
Fund Balance	0.00	0.00

1. Explanation of Purpose of Entity:

   Under the Vice President for Research, Montana State University Office of Grants and Contracts role is to perform as an effective service organization to the principal investigators and to provide financial accountability to the sponsors who have granted or contracted funds to the university for specific programs.

2. Explanation of the Negative Cash Balance:

   Fiscal Year 1991 grants and contracts expenditure activity from sponsored programs totaled $17.9M. The cash flow for these expenditures is obtained by cost reimbursable contracts and grants, letters of credit, special billings, and payment in full at the beginning of the contract. Eighty-two percent (82%) of this expenditure activity represents costs reimbursable and letter of credit drawdowns for approximately $9.7M. For the period ended June 30, 1991, the accounts receivable balance for Grants and Contracts was in the amount of $1,815M. Cost reimbursable billings are produced after payroll for the period involved.

3. Solvency Analysis:

   The solvency of this entity depends upon granting agencies to pay for allowable costs incurred by the University under the terms and conditions of grant or contract. The solvency of this entity is also dependent upon the ability of the office of Grants and Contracts to insure that all expenditures are allowable and do not exceed authorized spending levels.

4. Reduction/Retirement Plan:

   With cost reimbursable billing, (accounts receivable) being the major method of funding Grants and Contracts, there will continue to be a negative cash flow situation at fiscal year end.

Agency: Montana State University
Entity Name: College Work Study Payroll
Entity Number: 32207

Account Balances:	FYE 1990	FYE 1991
Cash Balance	(279,228.47)	(101,759.62)
Fund Balance	722.40	0.00

1. Explanation of Purpose of Entity:

The purpose of this entity is to serve as a payroll clearing account for college work study student employees. This entity is administered by MSU Financial Aid.

2. Explanation of the Negative Cash Balance:

The negative cash balance in this entity is normally due to year end cash flow. MSU incurs expenses in this entity for work study payroll that are not reimbursed until after the state cash cut off of June 30. Payments are subsequently received from both the federal government and off campus employers restoring the entity to a positive cash position.

3. Solvency Analysis:

The account is solvent because the fund balance is zero.

4. Reduction/Retirement Plan:

Because of the nature of this clearing account, it will continue to carry a negative cash balance. While State Statute controls on cash, fund balance is a more valid indication of the solvency of this account.

Agency: Montana State University
Entity Name: Pell Grant
Entity Number: 32225

Account Balance:	FYE 1990	FYE 1991
Cash Balance	(711,793.77)	(597,401.96)
Fund Balance	(715,569.77)	0.00

1. Explanation of Purpose of Entity:

   The purpose of this entity is to provide accounting for the student financial aid Pell Grant program administered by the U. S. Department of Education.

2. Explanation of the Negative Fund Balance:

   Negative cash balances is this account occur every year due to the very slow reporting and updating mechanism utilized by the Department of Education. At the beginning of each fiscal year DOE sets the maximum authorized cash draw that can only be increased by the monthly Pell Grant reports submitted by the MSU Financial Aid Office. The lag time from the date of submittal to the date of increase varies from one month to several months.

3. Solvency analysis:

   By definition this account is solvent because the fund balance is zero.

4. Reduction/Retirement Plan:

   We are working with the MUS, with the help of the Office of Legislative Auditor, to improve the Department of Education's reporting and updating procedures.

Agency: Montana State University
Entity Name: Advances
Entity Number: 33213

Account Balances:	FYE 1990	FYE 1991
Cash Balance	(120,877.02)	(145,252.51)
Fund Balance	0.00	0.00

1. Brief Explanation of Purpose of Entity:

   State laws and generally accepted accounting principles require expenditures to be recorded in the year which they apply. Frequently, however, vendors will require payment in one fiscal year for services to be provided in a subsequent fiscal year. The Advances entity is the accounting procedure which allows MSU to make advance payments to vendors and defer expensing the cost to the appropriate responsibility center until such time that the expense can be recorded in the proper fiscal year. This procedure has been in place for at least 15 years and is regularly reviewed by the Office of the Legislative Auditor.

2. Explanation of Negative Cash Balance:

   This entity, by design, will have a negative cash balance at fiscal year end as payments are made from this entity in one fiscal year and not reimbursed until the next fiscal year.

3. Solvency Analysis:

   By definition this account is solvent because the fund balance is zero. All advances are repaid by the proper expensing of the payment or repayment by the employee.

4. Reduction/Retirement Plan:

   Because of the nature of this clearing account, it will continue to carry a negative cash balance. While State Statute controls on cash, the relevant number in this situation is fund balance.

Agency: Montana State University
Entity Name: NSF Checks
Entity Number: 33219

Account Balances:	FYE 1990	FYE 1991
Cash Balance	(27,432.98)	(3,054.68)
Fund Balance	0.00	0.00

1. Brief Explanation of the Purpose of the Entity:

Provide accounting as required by State laws and policies as well as Generally Accepted Accounting Principles for the collection of checks deposited by MSU and returned by the bank for non-sufficient funds. Returned checks are purchased from the bank to maintain the daily deposit at the level withdrawn by the State Treasurer's Office. Collection on returned checks begins immediately. This procedure has been in effect for at least 15 years and has been audited each year.

2. Explanation of the Negative Cash Balance:

The entity purchases returned checks from the bank, checks returned for non-sufficient funds. The State Treasurer removes the bank deposits daily for immediate investment, in some cases days before a check is identified as an item to be returned to the depositor.

3. Solvency Analysis:

By definition this account is solvent because the fund balance is zero.

4. Reduction/Retirement Plan:

Because of the nature of this clearing account, it will continue to carry a negative cash balance. While State Statute controls on cash, the relevant number in this situation is fund balance.

Agency: Montana State University
Entity Name: Designated Accounts Receivable
Entity Number: 33290

Account Balances:	FYE 1990	FYE 1991
Cash	(62,009.92)	(44,211.46)
Fund	0.00	0.00

1. Brief Explanation of the Purpose of the Entity:

State policies and procedures as well as Generally Accepted Accounting Principles require that MSU account for bills owed by campus departments and other state agencies for services provided. Approximately 75 designated centers provide services to the campus and other state agencies. Examples are Campus Stores, Motor Pool and Computing Services. Centralized receivable provides one bill for all services rather than each department billing, resulting in savings to the University. This procedure has been in effect for at least ten years and has been audited each year.

2. Explanation of the Negative Cash Balance:

The service areas submit invoices to the Business Office during the month. At month end, bills are sent to agencies owing the University. A receivable is recorded in SBAS by recording revenue in the entities of the service areas. Most bills are collected during the next 30 days. Any bill not collected in 120 days is returned to the service area and revenue is reversed to clear receivable.

3. Solvency Analysis:

By definition this account is solvent because the fund balance is zero.

4. Reduction/Retirement Plan:

Because of the nature of this account, it will continue to carry a negative cash balance. While State statutes control on cash, the relevant number in this situation is fund balance. Negative cash balances fluctuate due to quarterly cycles, individual/outside agency needs and collection processes.

Agency: Montana State University
Entity Name: Auxiliary Accounts Receivable
Entity Number: 34290

Account Balances:	FYE 1990	FYE 1991
Cash Balance	(2,035.91)	(5,091.71)
Fund Balance	0.00	0.00

1. Brief Explanation of the Purpose of the Entity:

State policies and procedures as well as Generally Accepted Accounting Principles require that MSU account for bills owed by campus departments and other state agencies for services provided. Centralized receivable provides one bill for all services rather than each department billing, resulting in savings to the University. This procedure has been in effect for at least ten years and has been audited each year.

2. Explanation of the Negative Cash Balance:

The service areas submit invoices to the Business Office during the month. At month end, bills are sent to agencies owing the University. A receivable is recorded in SBAS by recording revenue in the entities of the service areas. Most bills are collected during the next 30 days. Any bill not collected in 120 days is returned to the service area and revenue is reversed to clear receivable.

3. Solvency Analysis:

By definition this account is solvent because the fund balance is zero.

4. Reduction/Retirement Plan:

Because of the nature of this clearing account, it will continue to carry a negative cash balance. While State Statute controls on cash, the relevant number in this situation is fund balance.

NORTHERN MONTANA COLLEGE
REPORT OF NEGATIVE CASH AND FUND BALANCES
FISCAL YEAR END 1991

Accounting Entity 31402 - Registration - Deferred Contract

Account Balances:	FYE 1990	FYE 1991
Cash Balance	<92,751.65>	<126,081.78>

1. Purpose of Entity

   A clearing account to track student accounts receivable on the Deferred Payment plan.

2. Explanation of Negative Cash Balance

   The negative cash balance is directly offset by a positive accounts receivable balance. It is the nature of a clearing account such as this to have a continual negative cash balance.

3. Solvency Analysis

   The entity is solvent since the fund balance is zero.

4. Reduction / Retirement Plan

   No reduction plan is necessary since it is normal for this entity to carry a negative cash balance.

NORTHERN MONTANA COLLEGE
REPORT OF NEGATIVE CASH AND FUND BALANCES
FISCAL YEAR END 1991

Accounting Entity 31403 - Agency Billing Clearing

Account Balances:	FYE 1990	FYE 1991
Cash Balance	<33,381.12>	<35,748.71>

1. Purpose of Entity

   A clearing account to track state and federal agency accounts receivable. These agencies pay some portion of tuition and fees for students that qualify for their programs.

2. Explanation of Negative Cash Balance

   The negative cash balance is directly offset by a positive accounts receivable balance. It is the nature of a clearing account such as this to have a continual negative cash balance.

3. Solvency Analysis

   The entity is solvent since the fund balance is zero.

4. Reduction / Retirement Plan

   No reduction plan is necessary since it is normal for this entity to carry a negative cash balance.

NORTHERN MONTANA COLLEGE
REPORT OF NEGATIVE CASH AND FUND BALANCES
FISCAL YEAR END 1991

Accounting Entity 32403 - NMC Contracts and Grants Account

Account Balances:	FYE 1990	FYE 1991
Cash Balance	<29,797.95>	<22,263.21>

1. Purpose of Entity

To account for federal grants and contracts received directly from the federal government. A portion of the federal grants provide for advance funding through a letter of credit using electronic funds transfer or written requests for funds. The remaining grants are paid to the college on a reimbursement basis only.

2. Explanation of Negative Cash Balance

The negative cash balances are due to our two large federal grants from the Environmental Protection Agency. Provisions of the grants require NMC to incur expenditures for the grant objectives and later request reimbursement for the expenditures. All requests for reimbursement require substantial documentation of all expenditures claimed and must be approved by the contract monitor for the grant. Therefore, the nature of these grants causes there to be continual negative cash balances in the grant accounts. Also, due to the comparably large expenditure activity for these grants, the positive cash balances for other grants in this accounting entity are insufficient to offset the negative cash balances caused by the EPA grants.

3. Solvency Analysis

This entity is solvent because all expenditures are funded by federal government grants that represent a reliable commitment.

4. Reduction / Retirement Plan

Due to the nature of the grants in this entity, there will continue to be a negative cash balance. Fund balance provides a better indication of the solvency of this entity.

NORTHERN MONTANA COLLEGE
REPORT OF NEGATIVE CASH AND FUND BALANCES
FISCAL YEAR END 1991

Accounting Entity 33415 - Great Falls Campus

Account Balances:	FYE 1990	FYE 1991
Fund Balance	<40,333.10>	<56,242.39>
Cash Balance	<16,985.41>	<25,540.39>

1. Purpose of Entity

   To account for the NMC branch educational operation in Great Falls.

2. Explanation of Negative Cash and Fund Balance

   Continued start-up costs have exceeded revenues. Fiscal year 1990-91 was the first full year of operation of the program. The higher education service fee originally charged was $20.00 per credit hour. The fee was approved for increase to $25.00 in September 1990 but due to certain contract commitments, the fee could not be instituted until January 1991. This lost revenue added to the negative balance.

3. Solvency Analysis

   Enrollment levels have been rising and fixed costs are now fairly level.

4. Reduction / Retirement Plan

   A full year of operation under the new fee will result in approximately $30,000 of additional revenue. This coupled with some budget reductions will reduce the negative fund balance by approximately $15,000 in fiscal year 1991-92. During fiscal year 1991-92, the Malmstrom program account will be merged with the Great Falls account. The Malmstrom account has a positive fund balance of $3,644.75 and during fiscal year 1990-91, revenue exceeded expenses by approximately $17,000. Continued efforts will have the negative fund balance completely eliminated by June 30, 1993.

NORTHERN MONTANA COLLEGE
REPORT OF NEGATIVE CASH AND FUND BALANCES
FISCAL YEAR END 1991

Accounting Entity 34407 - Student Health Services

Account Balances:	FYE 1990	FYE 1991
Cash Balance	<296.52>	<1,294.33>
Fund Balance	<1,839.83>	82.10

1. Purpose of Entity

   To account for the Student Health Service operation.

2. Explanation of Negative Cash Balance

   The Student Health Service was started in fiscal year 1990 and is designed to be self-supporting. However, initial start-up costs caused a negative fund balance.

3. Solvency Analysis

   The account is solvent since the fund balance is now positive and fee collections should exceed expenditures.

4. Reduction / Retirement Plan

   No reduction plan is required since year-end cash account transactions eliminate the negative cash balance.

DEPARTMENT OF ADMINISTRATION
DIRECTOR'S OFFICE

STAN STEPHENS, GOVERNOR
MITCHELL BUILDING

STATE OF MONTANA

(406) 444-2032
HELENA, MONTANA 59620

AUG 30 1991

LEGISLATIVE
-AL ANALY-

TO: Teresa Cohea, Legislative Fiscal Analyst
Office of the Legislative Fiscal Analyst

FROM: Bob Marks BM
Director

DATE: August 29, 1991

SUBJECT: Inter-entity Loan Report

In accordance with Section 17-2-107, MCA, the Department of Administration has prepared the attached report regarding inter-entity loans. Please distribute a copy of this report to each member of the Legislative Finance Committee.

Please contact Chuck Virag at 3092 if you have any questions regarding this report.

Attachment

DEPARTMENT OF ADMINISTRATION
DIRECTOR'S OFFICE

STAN STEPHENS, GOVERNOR MITCHELL BUILDING

STATE OF MONTANA

(406) 444-2032 HELENA, MONTANA 59620

August 29, 1991

To the Members of the Legislative Finance Committee:

Section 17-2-107, MCA, requires the Department of Administration to report loans authorized to the same accounting entity for two consecutive fiscal year-ends to the Legislative Finance Committee by September 1 of the following fiscal year. This report discloses such inter-entity loans through Fiscal Year (FY) 1991, excluding those of the University System, which are approved by the Commissioner of Higher Education or the Board of Regents.

Through FY 1991, 24 accounting entities had inter-entity loans for two or more consecutive fiscal year-ends. An explanation for these loans, an analysis of the solvency of these accounting entities, and a description of the plans for repayment follow.

GRANDFATHERED LOANS

There are 2 "grandfathered" loans (i.e., loans made prior to March 1983) still outstanding. These loans are not subject to the statutory restrictions of Section 17-2-107, MCA.

The Montana State Prison (MSP) has a balance of $15,000 remaining on a $40,000 loan that provided start up money for MSP Industries. The repayment schedule calls for payments of $5,000 each year.

The Department of Fish, Wildlife and Parks has a $210,000 loan to its Federal Account which was approved in March, 1983. The Department will require this loan as long as it participates in federally reimbursed grant programs.

LOAN EXTENSIONS GRANTED BY THE DEPARTMENT OF ADMINISTRATION

Section 17-2-107 (8), MCA, provides that the Department of Social and Rehabilitation Services (SRS), with the Department of Administration's approval, can establish long-term inter-entity loans whenever necessary due to timing differences between the transmittal of obligated funds and the receipt of federal and county reimbursements. The Department of Administration has approved 2 inter-entity loans that have extended over two fiscal year-ends under the authority of this statute. These loans are from the General Fund to the Federal Public Welfare and County

Reimbursement Accounts. The loan balances at fiscal year-end (FYE) 1991 were $890,772 and $4,000,000, respectively. The fund balance in the County Reimbursement Account was positive at FYE 1991, which indicates the account is solvent. The fund balance in the Federal Public Welfare Account was approximately ($777,000) at FYE 1991. An official at the SRS stated that they are currently reviewing the activity in this account to determine why the negative fund balance occurred. At this time they feel that prior year expenditure and revenue activity were not properly matched. That explanation is reasonable given that the fund balance in the account was positive at the beginning of FY 1991 and current year revenue exceeded current year expenditures.

LOANS AUTHORIZED BY THE LEGISLATURE

Through HB 100, the 1989 Legislature authorized the Department of Fish, Wildlife and Parks to make a permanent loan from its State Special Revenue Fund to its Federal Special Revenue Fund to provide adequate cash for federally reimbursed programs. The Department had loans to 2 accounting entities in the Federal Special Revenue Fund that were outstanding over two fiscal year-ends. The balance of these loans at fiscal year-end 1991 was $335,000. These accounting entities maintained fund balances at fiscal year-end that indicate solvency.

The 1989 Legislature also authorized, through passage of HB 619, the Department of Highways to establish a long-term repayment schedule for a $246,476 inter-entity loan from the State Special Revenue Fund to the Proprietary Fund. This authorization requires repayment of the loan by June 30, 1993.

LOANS AUTHORIZED FOR 2 CONSECUTIVE FISCAL YEAR-ENDS

In addition to the above noted loans, the Department of Administration has authorized loans for two consecutive fiscal year-ends to the following agencies and accounting entities (A/E):

Agency	A/E Name	A/E #	FY 91 Loan Bal.
OPI	Publ. School Equal.	02403	$43,630,000
Brd. of Educ.	Advisory Council	02122	$30,000
Highways	Highway Trust	03407	$30,886,285
LRBP	LR Construction Grant	05009	$50,000
Swan River YFC	Boarder Reimbursement	03114	$1,426
Veteran's Home	VA	03112	$66,418
Adj. General	National Guard	03132	$150,000
Justice	Misc. Grant	03801	$25,000
Arts Council	Community Match	02004	$1,541
Health	Public Health	03029	$15,000
DNRC	Stripper-S-ECP	03212	$100

Commerce	Rail Pl. & Construct.	03055	$70,000
Commerce	UMTA	03057	$20,000
Commerce	Indian Affairs-Fed.	03063	$15,000
Commerce	Defense Logist. Agency	03811	$40,000
Family Ser.	County Reimbursement	02056	$325,500

Although the Department has approved loans to the above listed accounting entities for two consecutive fiscal year-ends, none of these specific loans were outstanding for more than 1 year.

All of the above listed loans are required to provide cash to support operations pending the receipt of reimbursement from the federal government, other governmental entities or private organizations, except for those to accounting entities 02403 and 02122. Following is an explanation of the loans to these 2 accounting entities:

1. The loan to accounting entity 02403 is required to provide cash to cover the Foundation Program payments to the local school districts pending the collection of supporting revenue. The primary funding sources are property and individual income tax collections.

2. The loan to accounting entity 02122 is required to provide cash to cover the expenses of the Certification Standards and Practices Advisory Council pending receipt of the $3 fee from teachers applying for certification.

All of the above noted accounting entities, with the exception of the Department of Family Services' accounting entity 02056, maintained fund balances at FYE 1991 which would indicate solvency. An official at Family Services indicated that they are reviewing the activity in accounting entity 02056 to determine why the negative fund balance ($42,046) occurred. At this time it appears that the negative fund balance resulted from the failure to properly match prior year revenue and expenditures. That explanation is reasonable given that the fund balance in the account was positive at the beginning of FY 1991 and current year revenue and expenditures were approximately equal.

The loans to the above accounting entities are all scheduled for repayment in FY 1992. However, an official at the Office of Public Instruction has indicated that inadequate cash flows in the Equalization Account may preclude them from repaying the current loan during FY 1992.

LOANS PAST DUE

Three loans were past due at FYE 1991. The related agencies and accounting entities are as follows:

Agency	A/E Name	A/E #	FY 91 Loan Bal.
Publ. Service	Reimbursable Prog.	03011	$15,000
Adj. General	National Guard	03132	$150,000
Adj. General	Long Range Building	03244	$150,000

Officials at both agencies responsible for administering these accounting entities stated that the loans are required to provide cash for operations pending receipt of federal reimbursement. They do not anticipate having cash to fully repay the loans as long as their agencies participate in federal programs where payment is received on a reimbursement basis. The fund balances for these accounting entities were positive at year-end, which indicates solvency.

FY 1991 INTER-ENTITY LOAN SUMMARY

The Department of Administration approved 156 new inter-entity loans in FY 1991, of which 88 were from the General Fund. In addition, 55 inter-entity loans approved prior to FY 1991 carried forward to FY 1991, of which 19 were from the General Fund. At FYE 1991, 75 inter-entity loans were outstanding, with a balance totalling $102,253,391. This includes 42 loans from the General Fund totalling $56,830,915, of which $43,630,000 is loaned to the Office of Public Instruction's Equalization Account.

I hope you have found this report informative.

Respectively submitted,

Bob Marks
Director